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Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

**Memorandum**

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| To: | Members, Committee on Small Business |
| From: | Sam Graves, Chairman |
| Date: | April, 6 2011 |
| Re: | Full Committee Hearing: "Help Wanted: How Passing Free Trade Agreements Will Help Small Businesses Create New Jobs" |

## ***Introduction***

On Wednesday, April 6, 2011 at 1:00 pm, the House Committee on Small Business will conduct a hearing titled, "Help Wanted: How Passing Free Trade Agreements Will Help Small Businesses Create New Jobs." The hearing will highlight the benefits and importance of passing the pending free trade agreements (Panama, Colombia and Korea) to small businesses. Witnesses will explain how passing the pending free trade agreements will increase their revenue, create new jobs, and help them compete in the global marketplace.

## ***Export Statistics and Benefits to Small Businesses***

Economic Impact: Free trade is a critical component to small business growth and the U.S. economy. Exports spur job creation and are a major contributor to the U.S. gross domestic product (GDP). Small businesses rely on exports to increase their sales and strengthen their long-term viability.

Both the number of small businesses exporting and the total dollar value of exports are near all-time highs, and passing the free trade agreements will drive those numbers higher.

- Small businesses account for nearly 97 percent of all identified U.S. exporters.[1]

- Total U.S. exports in goods and services reached $1.8 trillion in 2010, nearly 12 percent of U.S. GDP.[2]

1 U.S. Department of Commerce, International Trade Administration

- A total of 281,668 small businesses exported from the United States in 2008, an increase of almost 9 percent from 2007.[3]

- In 2007, direct exports of goods and services from small businesses totaled $382 billion, or approximately 28 percent of total U.S. exports.[4]

Job Creation: Passing the free trade agreements is an important tool for creating new jobs for all types of small business owners, including manufacturers, farmers and service professionals. New exports create production demand, which creates new jobs. Many of these small business jobs are supported or created by direct exports and indirect exports. Indirect exports include the contribution of small businesses who supply larger companies' exports, like the hundreds of suppliers for Boeing and Caterpillar.

- $1 billion in U.S. exports creates 6,000 new jobs.[5]

- Direct and indirect exports from small businesses supported about 4 million jobs in 2007.[6]

- Total U.S. goods and services exports supported nearly 10 million jobs in 2008.[7]

Revenue Growth: Studies show small businesses that export generate more revenue and create more higher-paying jobs than non-exporting small businesses. With 95 percent of the consumer purchasing market outside of the U.S, small exporters realize the importance of reaching new markets to generate more revenue.

- The ITC report showed exporting small businesses averaged 37 percent revenue growth from 2005 to 2009; compared to a decline of 7 percent for non-exporting small businesses.

- The ITC also estimated implementation of the three pending free trade agreements would add at least $13 billion to U.S. exports and $10 billion to U.S. GDP.

Global Competition: Canada and the EU are aggressively negotiating free trade agreements with Colombia, Panama and Korea, and American small businesses will continue to lose market share to foreign competitors that enjoy lower tariffs, in the absence of U.S. trade agreements.

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2 U.S. Census Bureau
3 U.S. Department of Commerce, International Trade Administration
4 Ibid.
5 U.S. Department of Commerce
6 U.S. International Trade Commission
7 Ibid

- Between 2008 and 2009, U.S. exports of agricultural goods to Colombia dropped nearly 50 percent due to increased competition from Argentina and Brazil; who have a free trade agreement with Colombia.

- Agriculture exports will lose even more ground when Canada and the EU trade agreements are enacted on July 1, 2011 in the absence of similar U.S agreements.

Lowering Trade Barriers and Protecting Intellectual Property: Passing the free trade agreements will lower both tariff and non-tariff barriers, while enacting strong protection and oversight of intellectual property rights (IPR).

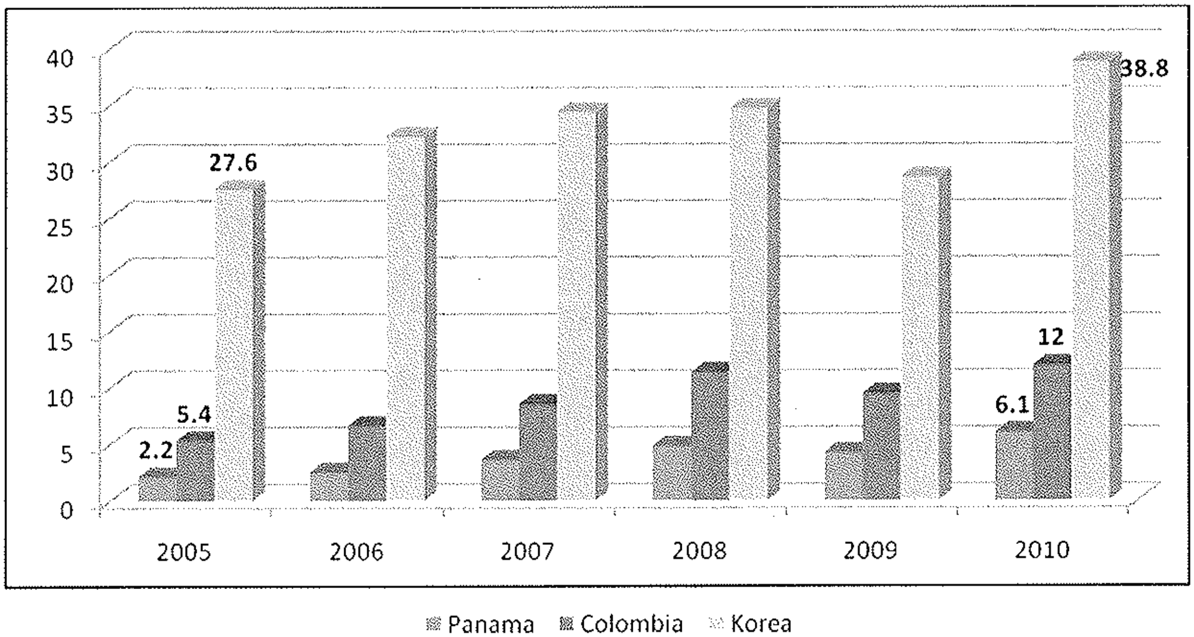
Non-tariff barriers are defined as the other trade barriers that blocks exports. Examples include: technical regulations, minimum standards requirement, national treatment, and phytosantiary measures (food safety regulations). The trade agreements harmonize the non-tariff barriers and level the playing field to increase export market access.

Studies show many small businesses are hesitant to export and trade in fear of having their intellectual property (IP) stolen.[8] Intellectual property is the comparative advantage for many small businesses, and the free trade agreements provide strong oversight and protection of IP to give small businesses the confidence to export.

Continued Growth in Exports: Exports to Panama, Korea and Colombia continue to reach record highs. Reducing the tariff rates and opening these markets will accelerate new exports for small businesses and continue to set new bilateral trade records. Figure 1 below outlines the growth of U.S. exports to Panama, Colombia and Korea in the past five years.

***Figure 1: Total U.S. Exports in USD (in billions)***

[8] U.S. International Trade Commission




## ***Background on the Free Trade Agreements***

In 2007, the United States concluded trade negotiations with Colombia, Panama, and South Korea, but no action was taken during the 110th and 111th Congress. In addition, the Trade Promotion Authority (TPA) expired on July 1, 2007, meaning any new negotiations (not including Colombia, Panama and Korea) will not receive expedited legislative consideration.

Bilateral and regional trade agreements have been an important element in U.S. trade policy and are aimed at lowering trade barriers among nations. As previously noted the pending agreements with Colombia, Panama and South Korea will reduce tariffs and harmonize non-tariff barriers to create more export opportunities for small businesses. The International Trade Commission estimated passing the trade agreements will increase U.S. exports by at least $13 billion.

In December 2010, President Obama and South Korean trade officials agreed on a new trade agreement; however the Obama Administration has yet to submit the language to Congress, which is expected by early April 2011. The Administration has not provided a timeframe or strategy for moving the agreements with Colombia and Panama. Republican leadership has called for the passing of all three trade agreements by July 1, 2011.

While the U.S. remains idle, Colombia, Panama and Korea are all aggressively negotiating free trade agreements with other nations, including Canada and the European Union. On July 1, 2011 the Colombia - Canada free trade agreement will go into effect. This agreement will remove significant tariffs from Canadian goods, and put our small business exporters at a major competitive disadvantage. Moreover, the European Union and Korea trade agreement is also expected to be enacted by July 2011.

Colombia has free trade agreements with Argentina, Brazil and the MERCOSUR countries (Uruguay, Paraguay and Venezuela). Panama has signed trade agreements with Canada and the European Union. Not moving U.S. free trade agreements puts American small businesses in a huge competitive disadvantage against foreign competitors, both large and small.

***The U.S. – Panama Trade Agreement***

More than 8,600 U.S. companies export to Panama, and more than 7,200 are small businesses. That results in over $1.6 billion in exports by small businesses.[9] The U.S-Panama agreement would open new markets for small businesses to increase their exports and create new jobs. It would allow small businesses to bid on the Panama Canal expansion, which is estimated at $5.25 billion. Panama has already concluded trade agreements with the European Union and Canada.

The U.S. International Trade Commission (USITC) estimates that implementing the agreement would increase U.S. exports by up to 145 percent. And under this agreement, over 88 percent of U.S. goods would enter Panama duty-free. This would level the playing field for U.S. exporters, as the majority of exports from Panama already enter the U.S. duty-free under the Caribbean Basin Initiative. The trade agreement also would reduce non-tariff barriers and increase transparency and intellectual property rights for U.S. small businesses.

***The U.S. – Colombian Trade Agreement***

More than 13,000 U.S. companies export to Colombia, and more than 11,300 are small businesses. That results in over $3.8 billion in exports by small businesses.[10] Colombia has concluded trade agreements with major competitors that will put small businesses at a competitive disadvantage. The Canada – Colombia Trade agreement is scheduled for enactment on July 1, 2011.

The U.S. International Trade Commission (USITC) estimates that implementing the agreement would increase U.S. exports by $1.1 billion. Like Panama, the majority of Colombian exports already enter the U.S. duty-free, while U.S. exports face tariffs as high as 35 percent. Passing this trade agreement will allow small businesses and farmers to stay competitive and increase their exports.

***The U.S. – Korean Trade Agreement (KORUS)***

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[9] U.S. Department of Commerce, International Trade Administration

[10] U.S. Department of Commerce, International Trade Administration

More than 20,000 U.S. companies export to South Korea, and more than 18,500 are small businesses. That results in over $11 billion in exports by small businesses. Korea is the seventh-largest U.S. trading partner, with over $38 billion in U.S. exports.[11] Like Colombia and Panama, South Korea continues to aggressively negotiate trade agreements with major U.S. competitors, including the European Union. The Korea – EU trade agreement is scheduled to conclude in July 2011.

The U.S. International Trade Commission estimates the trade agreement will increase U.S. exports by $10 billion, and increase the U.S. GDP between $10-12 billion. The KORUS FTA will significantly reduce tariffs on over 95 percent of U.S. products, including agricultural products. The trade agreement will also strengthen non-tariff barriers to provide transparency and protection for small businesses intellectual property.

## ***Conclusion***

Passing the pending free trade agreements with Panama, Colombia and Korea is a critical way to spur job creation for small businesses and grow the U.S. economy. Lowering tariff and non-tariff barriers will help small businesses increase their exports/revenue, and then create domestic jobs for American workers.

U.S. exports are a vital component of the U.S. GDP and major source for job creation. We must continue to open new markets and eliminate trade barriers to allow small business to grow and compete in the global marketplace. Failing to pass the free trade agreements will put all U.S. businesses, especially small businesses, at a competitive disadvantage against our foreign competitors, such as Canada and the European Union.

This hearing will provide the Committee members with the opportunity to hear directly from small businesses on the importance of passing the free trade agreements relative to their growth and long-term viability.

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[11] Ibid.